

“ICAS”

Discrimination & Subsidy

□ Unfair subsidy or cross- subsidy

❖ Investigation

❖ Direction

❖ Business Composition or Disaggregation

❖ Accounting Documents

❖ Reasons must be supplied

❖ “Shall relate to relevant investigation”

“ICAS” Pricing

- ❑ Prior Consent to sub-FAC prices**
- ❑ “Price Change Notice”**
- ❑ Reductions apply to Interconnect**
- ❑ Clarity on Special Offers**
 - ❖ 3 Month duration**
 - ❖ 3 months between similar**
 - ❖ Apply to Interconnect**

ACCOUNTING SEPARATION

Stack

Super normal profit
Network
Overheads and other costs
Retail SB



“ICAS”

Confidentiality

- ❑ Initial Agreement Covering Discussions**
- ❑ Further Provisions in Customer Agreement**
 - ❖ No third party unless authorised**
 - ❖ Same security as internal documents**
 - ❖ Disclosure is necessary restriction**
- ❑ Dedicated Interconnection Community**

“ICAS” Guidelines

- ☐ **Competitive Services**
- ☐ **Undue Discrimination on Quality**
- ☐ **Unfair subsidy or cross subsidy**
- ☐ **Prices below FAC**

Current/Future Developments

- ❑ Interconnection remains focus**

- ❑ International Liberalisation**

 - ❖ Announced 6 June '96: 45 Further Licences now issued**

- ❑ EU Interconnect Directive**

- ❑ Network Price Control from August 1997**

 - ❖ 4th consultative round**

Network Pricing From 1997

- ❑ Move to new regime from 1 August 1997**
- ❑ Regime to apply until 2001**
- ❑ Currently in 4th Consultative round**
 - ❖ Competition/ commercial negotiation replaces regulation**
 - ❖ BT not Oftel set prices within defined rules (baskets,caps,floors,ceilings, etc.)**
 - ❖ Rules depend on competitive position**
 - ❖ LRIC appropriate cost base for charges**

What remains?

- ☐ **Obligation to interconnect**
- ☐ **Standard List of Interconnection Services**
- ☐ **Publication of interconnect agreements**
- ☐ **Publication of charges**
- ☐ **Non discrimination and fair trading rules**
 - ❖ **BT cannot favour individual operators or itself in either quality or price.**

What remains (continued)?

- ❑ Accounting Separation**
- ❑ Linkage with Retail Price**
- ❑ OFTEL role and action ability:**
 - ❖ Delays in reaching or amending interconnect agreements**
 - ❖ Ruling additional services obligatory for interconnect**
 - ❖ Any anti-competitive charges**
 - ❖ Change in competitive status of services**

Long Run Incremental Costs

- ❑ Charge basis = LRIC plus mark up**
- ❑ Top Down Model - based on BT's Current Cost Accounting Separation Results**
- ❑ Bottom Up Model - based on other operators engineering model**
 - ❖ Cost elements to build national PSTN and Private Circuits network**
 - ❖ Populated with costs of fully efficient operator**
- ❑ Reconciliation & hybrid adjustments**

Service Categorisation

- ☐ **Of tel set starting prices for all based on LRIC**
- ☐ **Treatment varies with competitive categorisation**
 - ❖ **Core Network Services**
 - ❖ **Interconnect Specific Services**
 - ❖ **Prospectively Competitive Services**
 - ❖ **Competitive**

Charge Treatment

□ Core Network Services

- ❖ Call Termination & Origination (Local and Tandem) and Single Transit**

- ❖ 35-40% of Network Revenues**

□ 2 RPI-X baskets - Separate basket for termination

□ Price floors and ceilings

- ❖ Floor- incremental cost of components**

- ❖ Ceiling- stand alone component costs**

Calculation of 'X'

- ☐ **Values not yet known**
- ☐ **Factors involved in Oftel's consideration**
 - ❖ **Cost Base**
 - ❖ **Return on Capital**
 - ❖ **Volume, market share, and investment**
 - ❖ **Efficiency gains - over period and any start gap**

Calculation of Charges (continued)

□ Interconnect Specific Services

- ❖ Interconnect Points of Connection (CSI, ISI), Interconnect Extension Circuits, Data Management Amendments**
- ❖ 1% Network costs but essential for interconnect**

□ Charges indexed by RPI-X

Calculation of Charges (continued)

□ Prospectively Competitive Services

- ❖ Inter Tandem Conveyance & IDD country pairs**

- ❖ 15-20% of BT's Network costs**

□ Subject to Safeguard Cap at RPI

- ❖ For IDD cap applies to elements excluding accounting rate**

Calculation of Charges (continued)

□ Competitive Services

- ❖ Value added element of Operator and Directory calls (conveyance element in price baskets)**
- ❖ Private Circuits (not currently governed by Interconnect except some International Private Circuits)**
- ❖ c.40% of BT's Network costs**

□ No specific network controls but subject to Fair Trading & Non-discrimination rules

BT Response of 31 January 1997

☐ Support for Approach

✦ Competition replacing Regulation

☐ Framework idea supported but further improvements suggested

☐ Charges need to be set at appropriate level to encourage sustained network competition

☐ Reciprocity of charging essential

☐ Review reporting requirements

BACK UP SLIDES

Common Abbreviations (1)

- ☐ **OLO - Other Licenced Operator**
- ☐ **CSI - Customer Sited Interconnect**
- ☐ **ISI - In Span Interconnect**
- ☐ **POC (& POI)- Point of Connection**
- ☐ **IBL- In Building Link**
- ☐ **DDF - Digital Distribution Frame**
- ☐ **MUX - Multiplexor**
- ☐ **LTE - Line Terminating Equipment**
- ☐ **LRIC - Long Run Incremental Costs**
- ☐ **DLE - Digital Local Exchange**
- ☐ **LE - Local Exchange**
- ☐ **RCU - Remote Concentrator Unit**
- ☐ **DMSU - Digital Main Switching Unit**

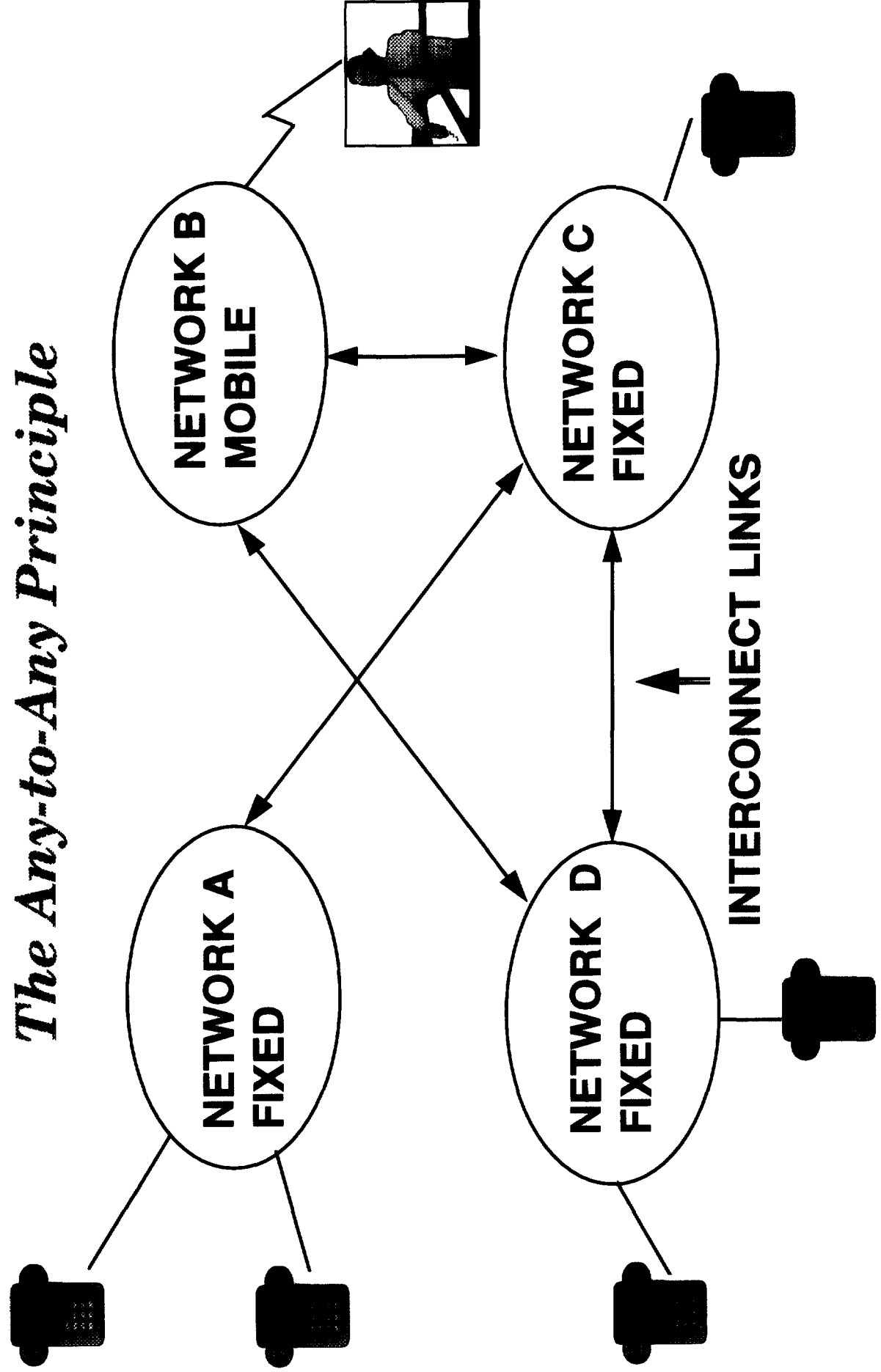
Common Abbreviations (2)

- ☐ **ICAS - Interconnect(ion) and Accounting Separation**
- ☐ **SSB - Supplemental Systems Business**
- ☐ **ASB - Apparatus Supply Business (CPE)**
- ☐ **RSB - Retail Systems Business**
- ☐ **SB - Systems Business**
- ☐ **PC(s) - Private Circuits**
- ☐ **IPLC(s)/IPC(s) - International Private Circuits**
- ☐ **DQ - Directory Enquiries**
- ☐ **RPI - Retail Price Index**
- ☐ **Oftel - Office of Telecommunications**
- ☐ **DG - Director General (OFTEL)**
- ☐ **ISR - International Simple Resale**
- ☐ **TNO - Trunk Network Operator**
- ☐ **CATV - Cable TV operator**
- ☐ **OA - Other ADministrations (Hull Channel Is.)**

Common Abbreviations (3)

- ☐ **SP - Service Providers**
- ☐ **IEC - Interconnect
Extension Circuit**

The Any-to-Any Principle



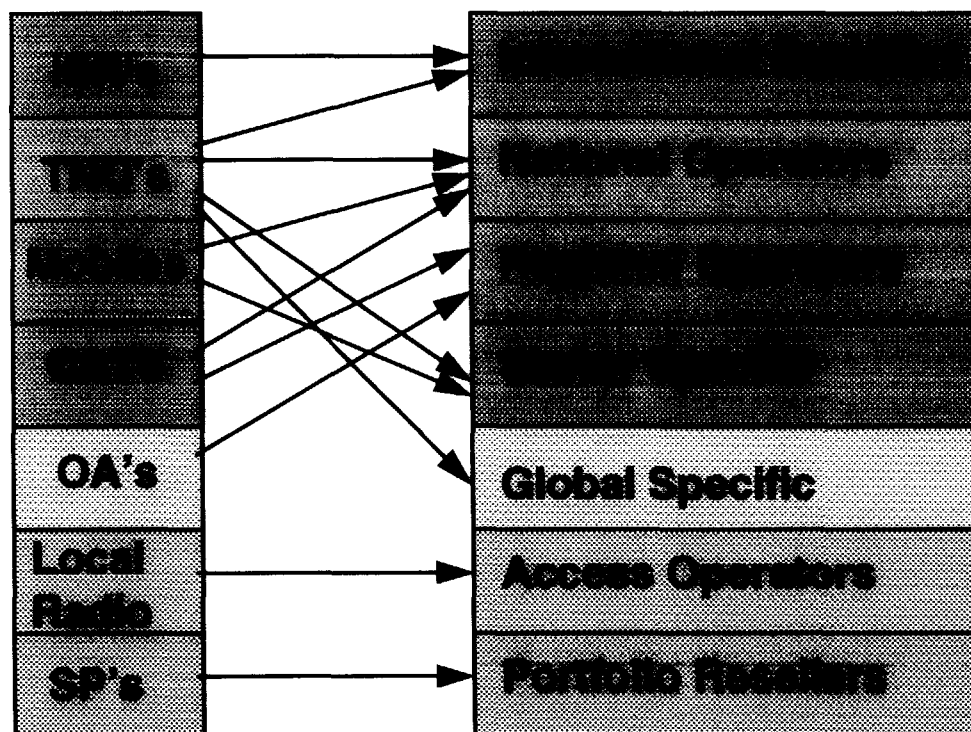


CUSTOMERS

Current Groupings

Business Focus

Examples



ACC; WorldCom

MCL; Energis; Orange

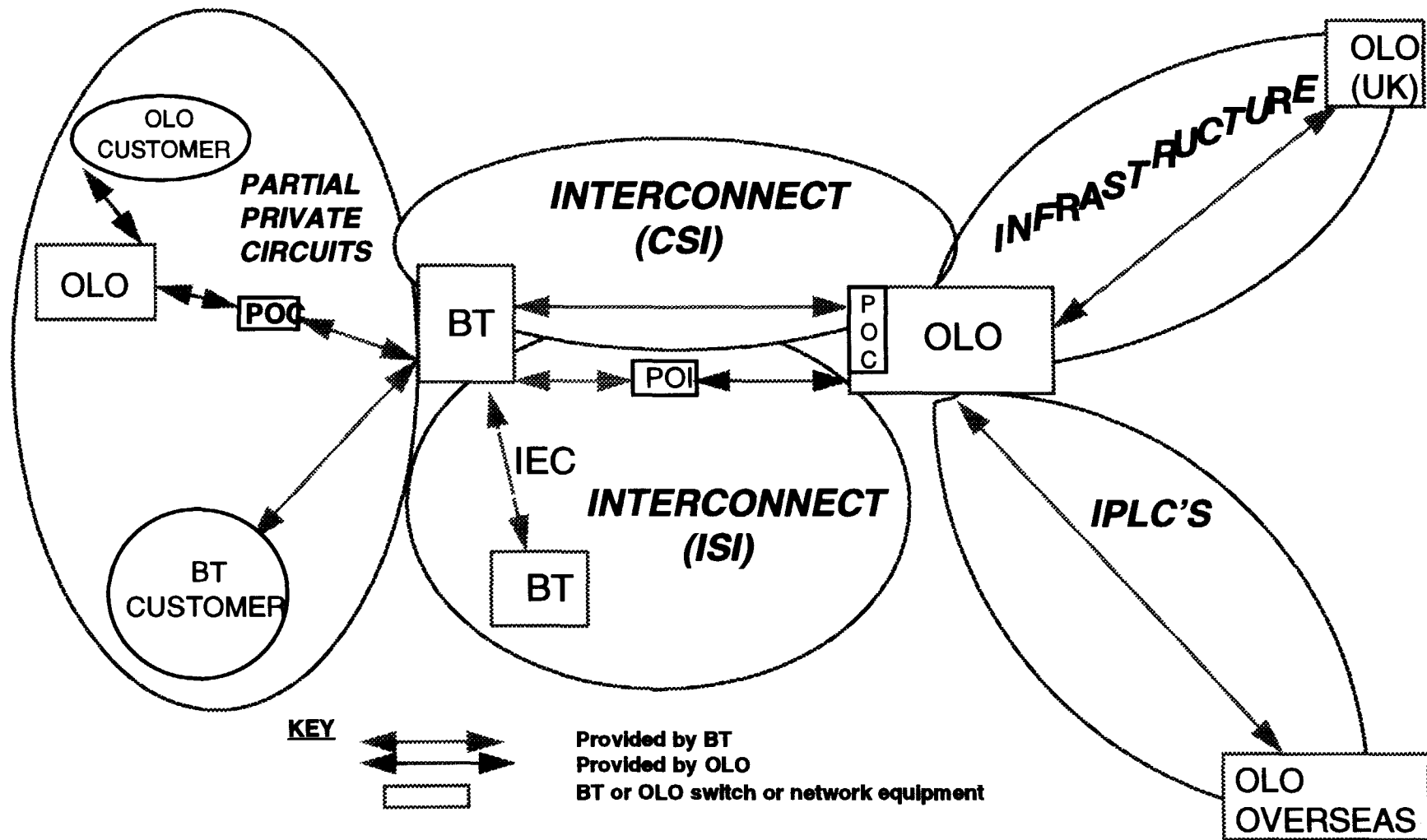
KCH; Videotron

MFS; COLT

Telstra; MFS

Ionica

INTERCONNECT AND INFRASTRUCTURE SERVICES



In-Span Interconnect

